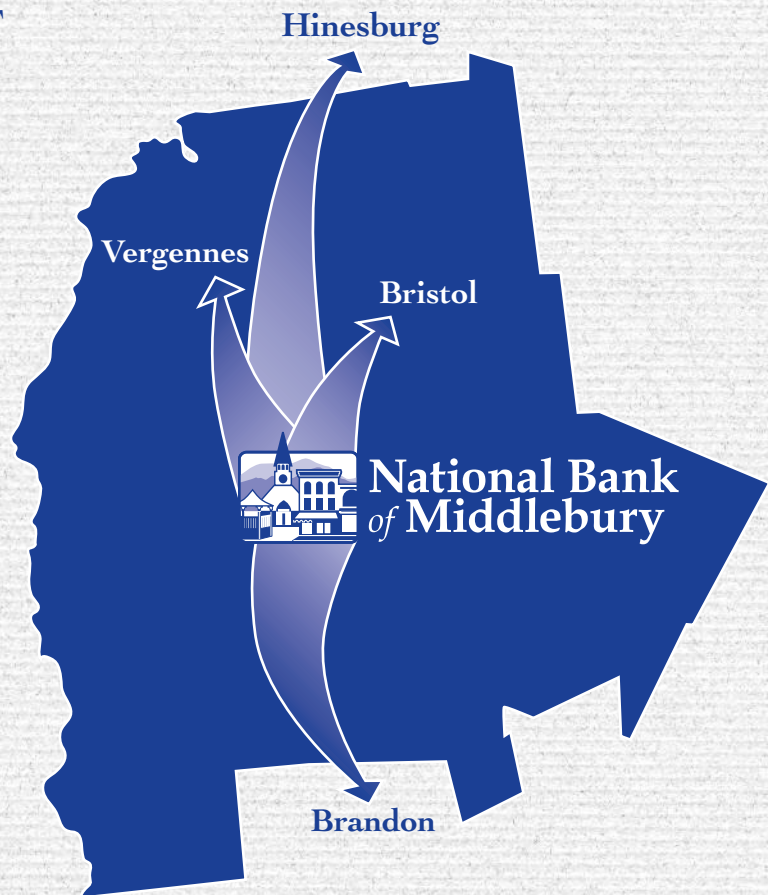


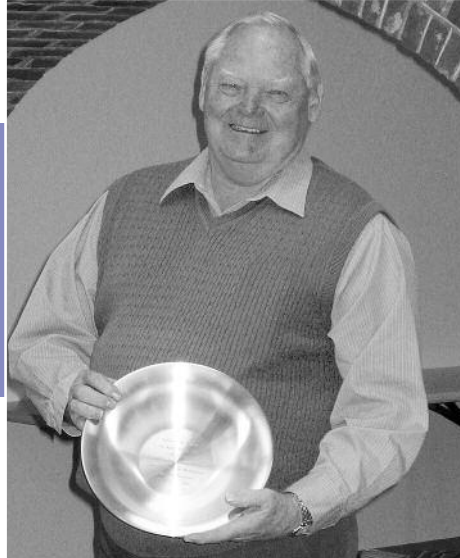
# Middlebury National Corporation

2007 ANNUAL REPORT





# Edward M. Foster



*Thank you  
Ed for your  
thirty-eight  
years of service!*

On October 24, 2007, Ed Foster officially retired as a member of National Bank of Middlebury and Middlebury National Corporation's Board of Directors after thirty-eight years of service, including eight years as chair of the bank board. Ed's service to our institution is only eclipsed by his service to the community. His leadership abilities have been recognized in every endeavor as he has served as chair or president of numerous boards, including Middlebury ID #4 School, Porter Hospital, the Sheldon Museum, the Rotary Club of Middlebury, and the Vermont Automobile Dealers Association. As the owner/operator of the very successful Foster Motors, Inc., Ed's commitment to quality service to his friends and neighbors is memorialized in the Foster motto: We care. We already miss Ed's leadership, knowledge of the community, clear insight, warmth and compassion. His commitment and dedication to National Bank of Middlebury and Middlebury National Corporation will remain a hallmark for years to come. Ed, we wish you and Carolyn the very best and are pleased to dedicate this 2007 Annual Report to you.

*Dear Shareholder:*

2007 has been a watershed year for National Bank of Middlebury and Middlebury National Corporation. Bank merger activity in Vermont has created exciting opportunities for us. As the ownership of several institutions in our market moved out-of-state or out-of-market, we have been able to solidify our position as a locally-owned alternative. In December 2006, First Brandon National Bank announced its merger with the New Hampshire-based Lake Sunapee Bank. We opened for business in Brandon on July 16, 2007. We are pleased with the early returns on our investment and are working hard to meet and get to know the Brandon community.

In October 2007, we were approached by Community National Bank of Derby, Vermont, which was merging with Lyndon Bank, to see if we wished to purchase the Lyndon Bank, Vergennes branch. This acquisition was consummated after close of business on December 31, 2007. We are thrilled with the very capable staff in Vergennes and the opportunity to establish our presence in all three of Addison County's major growth centers.

The construction of our new branch in Hinesburg is on schedule to be completed by mid-year 2008. This branch has been on the drawing board for over three years. The community of Hinesburg is a thriving one and represents considerable growth potential for us.

On the financial side, despite good deposit growth of 5.6% and loan growth of 5.8%, net income was down 10.4% for the year. This was the result of continued pressure on our net interest margin as short-term rates remain relatively high in comparison to long-term rates. We also experienced an increase in our operational expense, primarily salary expense for our expansion into Brandon. Our balance sheet grew nicely with total assets up 3.8%. We did see a shift of \$6.5 million from investments to Federal Funds as investing opportunities were not attractive in a declining-rate environment. Bank premises increased \$913,000 as a result of leasehold improvements and equipment purchases for our Brandon Office. In addition, we purchased real estate in Brandon in anticipation of building a drive-up facility at some point in the future. Shareholder equity increased \$1,507,177. Per share book value increased 7.6% to \$24.17. The market price of our stock rebounded from year-end 2006, increasing \$3.91 to \$35.84 at our last stock auction. We are pleased to report that increase in share value to you.

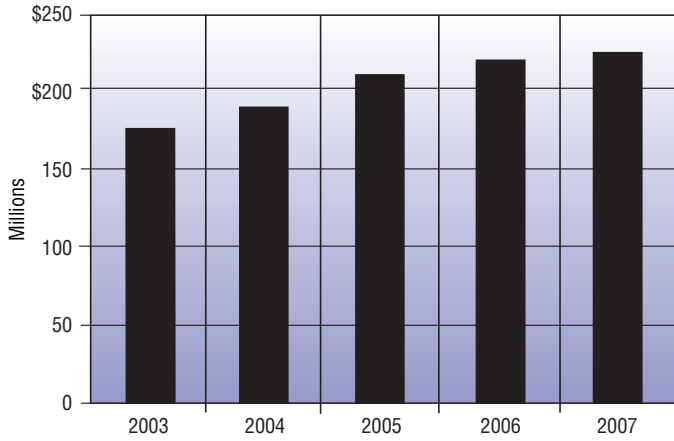
Our trust and investment affiliate, Community Financial Services Group (CFSG), had an excellent year. Assets under management increased 34% over 2006 to \$205 million. We are looking forward to working in our new markets to meet the financial needs of each of those communities. The sizeable drop in interest rates in the first few weeks of 2008 will help us to deliver low-cost loan options to the individuals and businesses in our markets in west-central Vermont. We have made a significant investment in our delivery channel to our expanded market with a long-term view toward growth and market dominance. Thank you for your continuing support of Middlebury National Corporation and National Bank of Middlebury.

Sincerely,

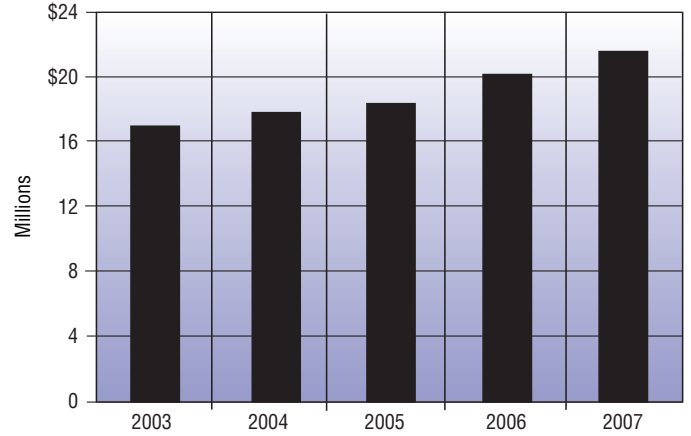


G. Kenneth Perine  
Executive Vice President

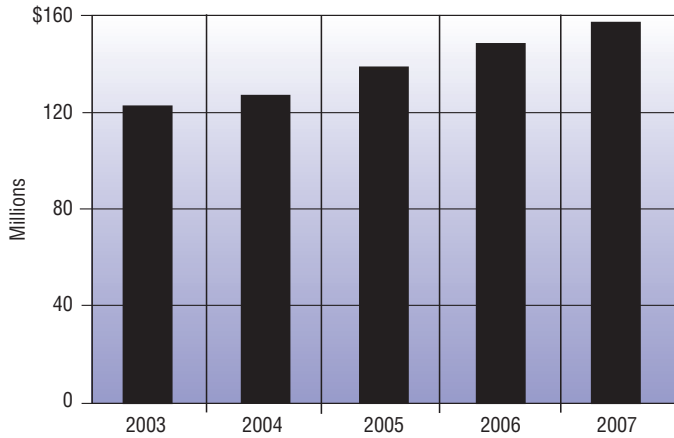
Total Assets



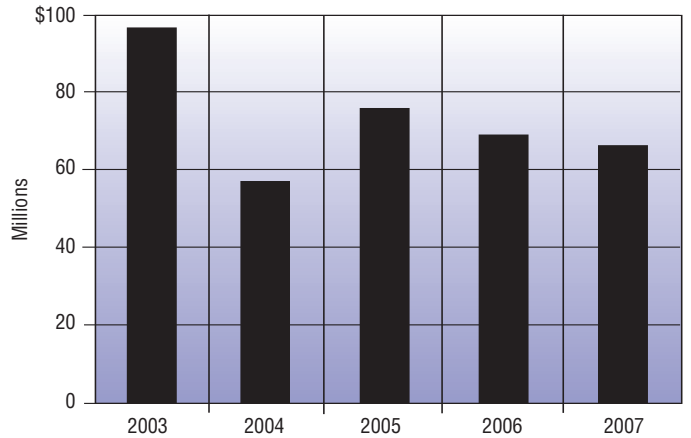
Shareholders' Equity



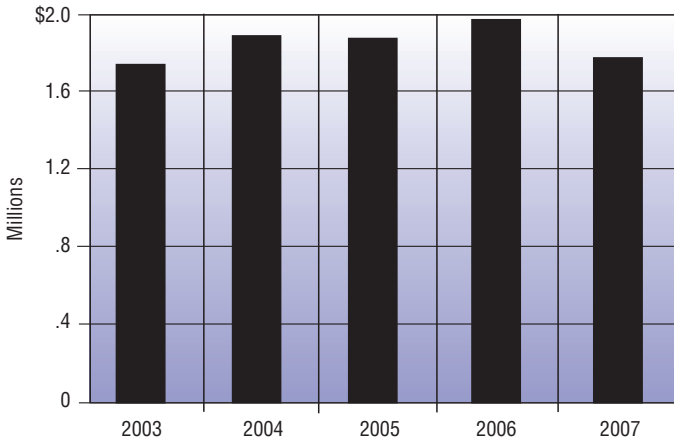
Total Loans



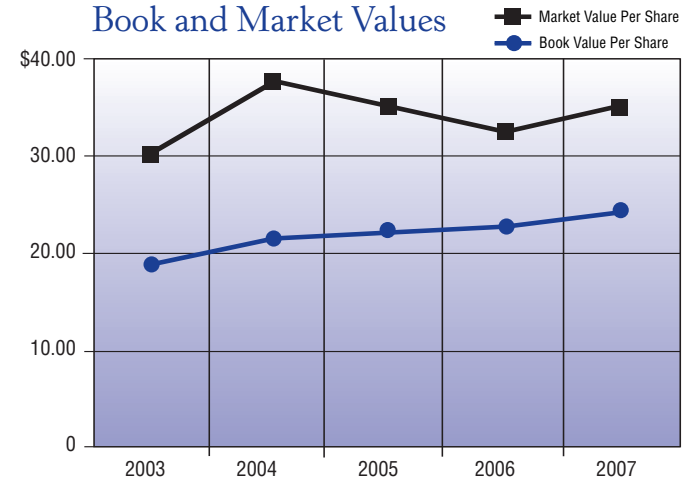
Loan Originations



Net Income

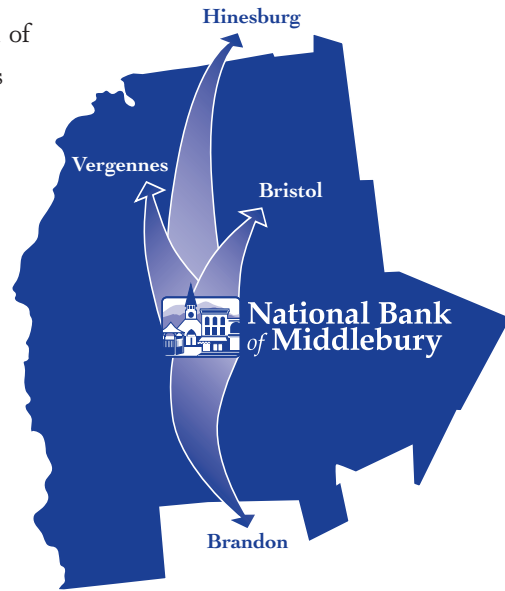


Book and Market Values



# Reaching Out

**T**welve years ago, the National Bank of Middlebury board of directors approved a plan to create the bank's first branch outside Middlebury, in Bristol. The board was responding to interest expressed by Bristol residents and to a perceived need for growth at the bank given our predominant market share in Middlebury with limited upside potential. Several factors further encouraged us. We had a good customer base in the area already, there was only one bank in town (a branch of a Burlington-based institution) and most importantly, the Bristol populace was coalescing and building a strong sense of community. Over the past decade, we have succeeded in capturing better than half of the financial institution deposits in the area and becoming a fixture in the Bristol community as a leader in providing financial services and community support.



Given our success in Bristol, we started to look at other markets in and around Addison County. As early as 2002, we identified three markets in which we would like to branch under the proper conditions. These markets included Brandon, Vergennes and Hinesburg. Each of these communities offered at least a few of the ingredients we found helpful in building a market presence in Bristol; a strong sense of community, limited competition, the need for a locally owned bank, and an established National Bank of Middlebury customer base.

While we did not see the need to aggressively pursue locations in all three towns, we did identify the conditions under which we would enter those markets. The only market we

decided to move on right away was Hinesburg. It is a fast growing community with only one bank in town and we speculated it could be a ripe opportunity. If we were to establish an office here, we wanted to be the next one in! So we began the process of building a branch. After three years, we finally received our building permit in the fall of 2007.

2007 also brought a perfect storm to the Vermont banking scene. Thin net interest margins, competition from internet banks, increased regulatory burden and shareholder concerns all combined to fuel a merger fire. We saw five Vermont-based banks sell, four to out of state concerns. Three of these were in our direct market; Chittenden Bank, Lyndon Bank and First Brandon National Bank.

The sale of First Brandon to a New Hampshire bank holding company in mid 2007 met our conditions for entry into that market. The merger of Lyndon Bank into Community National Bank of Derby, VT led to the sale of Lyndon's Vergennes branch to us in late 2007.

## Bristol

While we never dreamed of these opportunities coming all at once, our planning had prepared us to take advantage of them in a timely manner. We look forward now to replicating our success in Bristol in the communities of Brandon, Vergennes and Hinesburg and to solidify our market presence in and around Addison County.



*NBM Bristol  
Office opened  
for business in  
May 1996.*

## For some time, a few citizens of Brandon

had been urging us to open an office in their community to provide an alternative to First Brandon National Bank. We were reluctant to try to compete with First Brandon as the hometown bank since we felt we could not differentiate ourselves. With the merger of First Brandon into a New Hampshire-based bank, our concerns evaporated and we opened for business in July 2007.

We were able to secure a rental space in the old Ayshire Breeders building, owned by Ben Lawton and Susan Hayden. We are extremely pleased with our downtown location that affords easy customer access with good parking availability. The tasteful renovation, completed by Naylor and Breen builders, has created a warm and inviting atmosphere that is complemented by a superb staff of local people.

Deborah Wing manages the office and is our principal residential lender in Brandon. Her experience in lending at *Neighborworks* of West Rutland is serving new home buyers and those seeking refinances very well.

Yvonne Emery brings years of customer service experience in a bank environment, a strong customer service ethic and a quick wit!

Danielle Douglas may be the first person to greet you as you enter the office. Her pleasant smile, warmth and genuine concern for her customers are a hallmark for the office.

Shane Kean is the group leader for our tellers and customer service representative. He has worked for National Bank of Middlebury for 10 years and understands how to make sure the bank systems work for the customer. He is ably assisted by tellers; Tonya Sylvester, Virginia Salino, and Ashley Dike. These three insure that customers receive a warm friendly greeting and excellent customer service.

# Brandon

The only missing piece in Brandon is a drive-up facility. In December 2007, the bank's holding company purchased the Express Car Wash real estate at the corner of High Street and Franklin Street as a potential site for a drive up presence.

Our initial welcome to the Brandon community has been fabulous! We are excited about the future of Brandon and the part National Bank of Middlebury can play in its success.

### *NBM Brandon Office Staff*



*Deborah Wing  
Office Manager*



*Shane Kean  
Group Leader*



*Danielle Douglas,  
Customer Service Rep.*



*Yvonne Emery  
Customer Service Rep.*

*NBM Brandon  
Office opened  
for business in  
July 2007.*



*Ginny Salino  
Teller*



*Tonya Sylvester  
Teller*



*Ashley Dike  
Teller*



# Vergennes

## After years of contemplating how we could successfully

enter the “over-banked” Vergennes market, our dream came true. In October 2007, we were approached by Community National Bank about the possibility of purchasing the Vergennes office of Lyndon Bank upon their completion of a merger with Lyndon. We were ecstatic about this opportunity. Vergennes is one of three major growth centers in Addison County and the only one in which we did not have an office. We felt a strong need to enter this market. The purchase of the Vergennes office of Lyndon Bank is the perfect solution.

After receiving regulatory approval, we purchased the real estate and loan portfolio and assumed the deposits of the branch at close of business, December 31, 2007.

We opened the branch on January 2, 2008 as the National Bank of Middlebury and our customers began taking advantage of its convenient location immediately. That was the first step of the purchase. The second step was to convert all of the loan and deposit accounts from Lyndon Bank’s computer system to ours. This was no small feat. The conversion took place on the weekend of February 23 and 24.

Our staff, both in Middlebury and Vergennes, worked extremely hard to insure as seamless a transition as possible for our new Vergennes customers.

The outstanding staff in the Vergennes office is staying intact. Laurie Barrett, office manager; Chris Lapierre, commercial loan officer; Cassandra Boise, teller; Ashley VanDeWeert, customer service representative; are as dedicated a staff as you could ask for. Their priority is the customer!

## *NBM Vergennes Office Staff*



*Cassandra Boise*  
Teller

*Ashley VanDeWeert*  
Customer Service Rep.

*Laurie Barrett*  
Office Manager

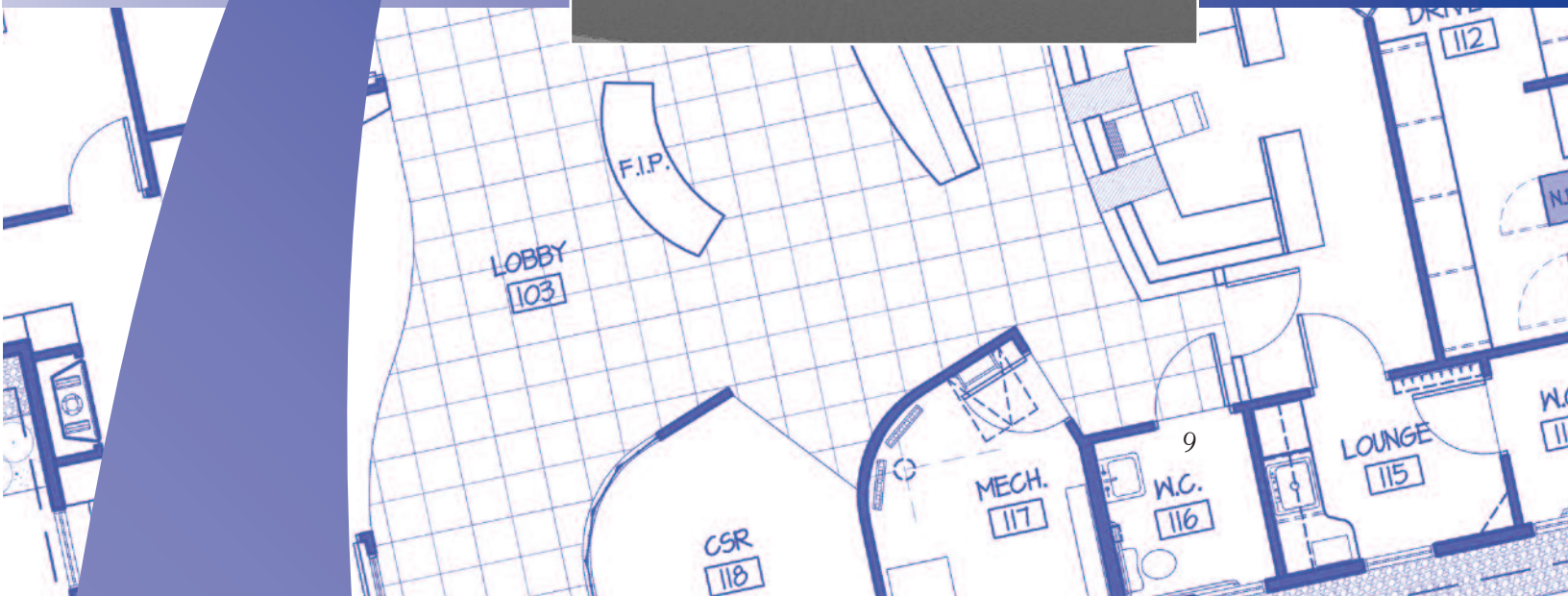
*Christopher Lapierre*  
Commercial Loan Officer

*NBM Vergennes  
Office opened  
for business in  
January 2008.*

## Hinesburg



*NBM Hinesburg  
Office will open  
for business in  
July 2008.*



## *Directors & Officers*

### DIRECTORS OF MIDDLEBURY NATIONAL CORPORATION AND NATIONAL BANK OF MIDDLEBURY

Fletcher R. Brush	Linda K. Harmon	Lawrence W. Miller II
Caroline R. Carpenter	Roch F. MacIntyre	G. Kenneth Perine
Paul J. Carrara, Jr	John M. McCardell, Jr.	Sarah D. Stahl

Robert J. Duclos, *Director Emeritus*

Edward M. Foster, *Director Emeritus*



*Upper Left: John M. McCardell, Jr.,  
Linda K. Harmon, Paul J. Carrara, Jr.*

*Upper Right: Caroline R. Carpenter,  
G. Kenneth Perine, Sarah D. Stahl.*



*Lower Left: Lawrence W. Miller,  
Roch F. MacIntyre, Fletcher R. Brush.*

### OFFICERS OF MIDDLEBURY NATIONAL CORPORATION

Sarah D. Stahl, *President*

G. Kenneth Perine, *Executive Vice President*

Linda K. Harmon, *Secretary*

Justin C. Brande, *Treasurer*

## Bank Officers & Staff

### OFFICERS OF NATIONAL BANK OF MIDDLEBURY

John M. McCardell Jr., *Chair*  
Roch F. MacIntyre, *Vice Chair*  
Sarah D. Stahl, *Clerk*  
Paul J. Carrara Jr., *Assistant Clerk*  
G. Kenneth Perine, *President & Chief Executive Officer*  
Caroline R. Carpenter, *Executive Vice President*  
Laura J. Adams, *Senior Vice President*  
Justin C. Brande, *Senior Vice President & Chief Financial Officer*  
Sarah A.P. Cowan, *Senior Vice President*  
Madeline E. Gardner, *Vice President*  
Grover K. Usilton, *Vice President*  
Phillip L. Martin, *Vice President*  
Julie L. Heffernan, *Vice President*  
Kerry D. Bolduc, *Assistant Vice President*  
Shawn M. Davis, *Assistant Vice President*  
Theresa A. Gile, *Assistant Vice President*  
Deborah Wing, *Brandon Office Manager*  
Jo A. Holm-Hansen, *Deposit Sales/Service Manager*  
Christine G. Wagner, *Deposit Operations Manager*  
Laurie Barrett, *Vergennes Office Manager*  
Christopher Lapierre, *Vergennes Commercial Loan Officer*  
Sharon L. Brown, *Hinesburg Residential Loan Officer*  
Stacey D. Brown, *Loan Operations Manager*

### STAFF OF NATIONAL BANK OF MIDDLEBURY

Ashley Andrews	Laurie Conant	Shane Kean	Heather Roberts
Elizabeth Andrews	Roxann Cousino	Edmond Kelly, Jr.	Angela Rule
Amanda Austin	Ashley Dike	Judy Langeway	Virginia Salino
Mallory Barnum	Donna Donahue	Christine Lathrop	Betsy Schwenker
Kevin Baussmann	Danielle Douglas	Laurel Lattrell	Jeanne Shaughnessy
Carolyn Bearor	Theresa Douglas	Judi Leavstrom	Wendy Shaw
Jane Beck	Christine Dowd	Donna Lewis	Karen Sinnock
Charlotte Birchmore	Yvonne Emery	Linda Lunna	Bhrea Strand
Carole Boise	Rick Emilo	Lindsey Martin	Tonya Sylvester
Cassandra Boise	Sheila Emilo	Pamela Martin	Sandra Trombley
Brenda Bourdeau	Delsie Farnsworth	Stacey Miller	Wendy Truax
Joel Bouvier	Michelle Farrell	Theresa Nilsson	Cathy Trudel
Danielle Briggs	Kylie Gaboriault	Melissa Nolan	Ashley VanDeWeert
Melissa Brittell	Jenniffer Gebo	Karen Osborn	Catherine Wall
Donna Brown	Sue Gebo	Sarah Paquette	Michele Warren
Tatsiana Bussiere	Constance Goodrich	Tina Patterson	Geraldine Welch
Diane Cadoret	Shannon Hanlon	Rebecca Perkins	Lynne Wiley
Michelle Caniyo	Kathy Hayes	Amy Prior	
Jodi Collins	Christine Heudorfer	Kimberly Richards	

## Locations

### OFFICE LOCATIONS

Main Office 30 Main Street Middlebury	<i>Drive-up Office</i> 15 Seymour Street Middlebury
Route 7 South Office 240 Court Street Middlebury	<i>Drive-up Office</i> 240 Court Street Middlebury
Brandon Office 5 Carver Street Brandon	
Bristol Office 28 Main Street Bristol	<i>Drive-up Office</i> 28 Main Street Bristol
Vergennes Office 29 Green Street Vergennes	<i>Drive-up Office</i> 29 Green Street Vergennes

### ATM LOCATIONS

Main Office 30 Main Street Middlebury	Drive-up Office 15 Seymour Street Middlebury	Route 7 South Office 240 Court Street Middlebury	Brandon Office 5 Carver Street Brandon
Bristol Office 28 Main Street Bristol	Vergennes Office 29 Green Street Middlebury	Middlebury College • Student Center • Library	Middlebury Market & Café 54 College Street Middlebury



**National Bank**  
*of Middlebury*

PO Box 189  
Middlebury, Vermont 05753-0189

Connecting all offices: 1-877-508-8455  
[www.nationalbankmiddlebury.com](http://www.nationalbankmiddlebury.com)  
email: [info@nationalbankmiddlebury.com](mailto:info@nationalbankmiddlebury.com)



EOE: National Bank of Middlebury is proud  
to be an Equal Opportunity Employer.



